

**D80Z01**  
**Maryland Insurance Administration**

***Operating Budget Data***

(\$ in Thousands)

	<b><u>FY 17</u></b>	<b><u>FY 18</u></b>	<b><u>FY 19</u></b>	<b><u>FY 18-19</u></b>	<b><u>% Change</u></b>
	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>	<b><u>Prior Year</u></b>
Special Fund	\$30,328	\$31,740	\$31,732	-\$8	
Adjustments	0	-359	202	561	
<b>Adjusted Special Fund</b>	<b>\$30,328</b>	<b>\$31,381</b>	<b>\$31,934</b>	<b>\$553</b>	<b>1.8%</b>
Federal Fund	502	728	725	-3	-0.4%
Adjustments	0	-1	1	2	
<b>Adjusted Federal Fund</b>	<b>\$502</b>	<b>\$727</b>	<b>\$726</b>	<b>-\$1</b>	<b>-0.1%</b>
<b>Adjusted Grand Total</b>	<b>\$30,830</b>	<b>\$32,108</b>	<b>\$32,660</b>	<b>\$552</b>	<b>1.7%</b>

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- The adjusted fiscal 2019 allowance increases \$552,000 largely due to increased personnel costs.

Note: Numbers may not sum to total due to rounding.

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***Analysis of the FY 2019 Maryland Executive Budget, 2018***

## ***Personnel Data***

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	<b><u>FY 17</u></b>	<b><u>FY 18</u></b>	<b><u>FY 19</u></b>	<b><u>FY 18-19</u></b>
	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>
Regular Positions	257.00	257.00	259.00	2.00
Contractual FTEs	<u>13.85</u>	<u>17.10</u>	<u>17.60</u>	<u>0.50</u>
<b>Total Personnel</b>	<b>270.85</b>	<b>274.10</b>	<b>276.60</b>	<b>2.50</b>

### ***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	14.01	5.45%
Positions and Percentage Vacant as of 12/31/17	13.00	5.06%

- There are 2 additional regular positions and 0.5 contractual full-time equivalents in the fiscal 2019 budget.

## ***Analysis in Brief***

### **Major Trends**

**Fraud Division:** The Insurance Fraud Division is responsible for investigating complaints related to alleged insurance fraud committed by insurance companies, insurance producers, or consumers. The number of referrals opened for investigation has decreased at the same time that the percentage of referrals investigated within 180 days has increased.

**Form Filings:** The Maryland Insurance Administration (MIA) conducts a review of every insurance policy and contract form to ensure that all of the legal requirements for the policy or contract have been met. The number of form filings received for both insurance classifications have decreased.

### **Operating Budget Recommended Actions**

1. Concur with Governor's allowance.

### **Updates**

**Long-term Care Insurance:** The 2017 Joint Chairmen's Report requested report from MIA outlining the cost of potential inflation protection options for long-term care insurance, and the feasibility of a two-year or five-year moratorium on rate increases, and the effect a moratorium would have on the current market.

**D80Z01**  
**Maryland Insurance Administration**

***Operating Budget Analysis***

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**Program Description**

The Maryland Insurance Administration (MIA) implements laws and develops policies, procedures, and regulations that affect Maryland's insurance industry. MIA performs rate and form reviews, financial audits, licensing examinations, market conduct examinations, and fraud investigations. It also resolves consumer complaints and issues licenses to companies and producers.

The main goals of MIA are to:

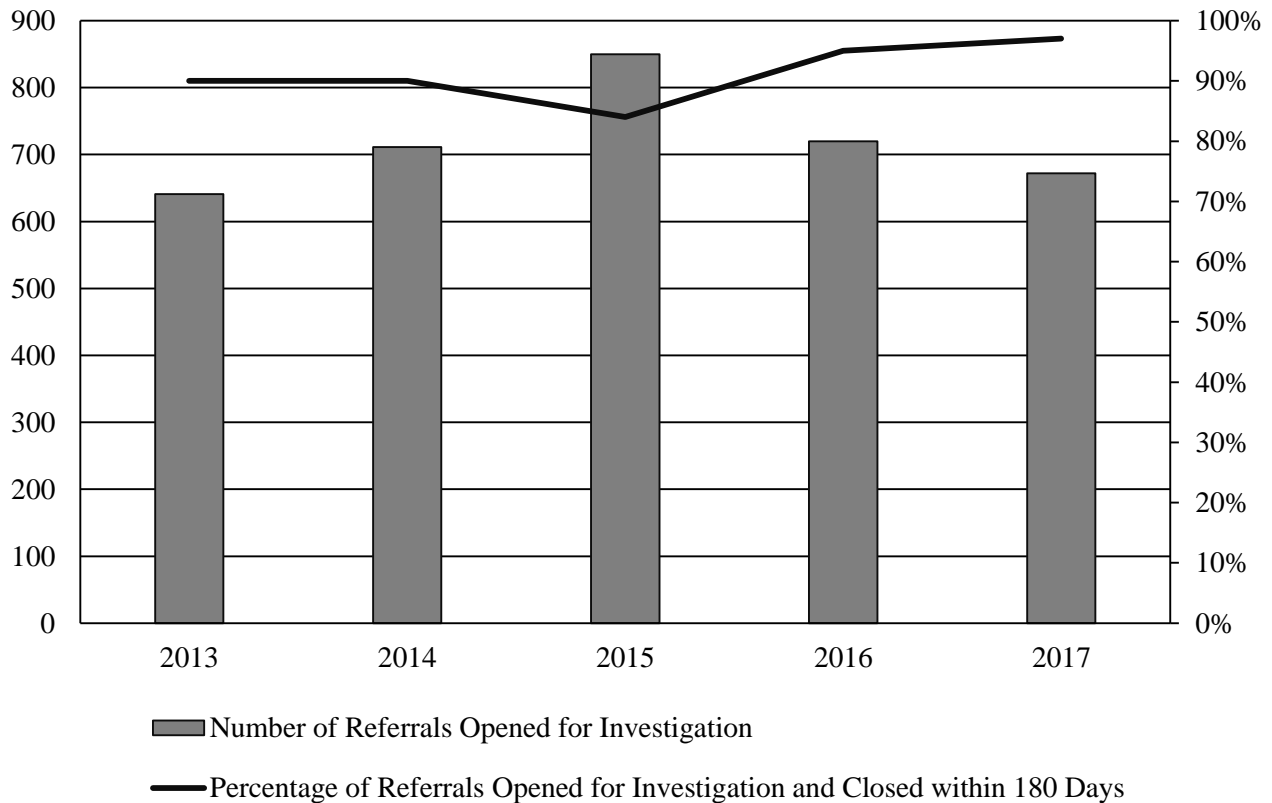
- ensure that the terms and conditions of insurance contracts are reasonable and meet the requirements of Maryland law;
- resolve consumer complaints in accordance with insurance law in a prompt and fair manner;
- protect the public from unfair trade practices and other violations of the Insurance Code;
- ensure that insurers have the financial ability to pay claims when due; and
- investigate and prosecute insurance fraud.

**Performance Analysis: Managing for Results**

**1. Fraud Division**

The Insurance Fraud Division is responsible for investigating complaints relating to alleged insurance fraud committed by insurance companies, insurance producers, or consumers. The division also operates a toll-free insurance hotline and, in cooperation with the Office of the Attorney General and the Department of State Police, conducts public outreach and awareness programs on the cost of insurance fraud. **Exhibit 1** shows the number of fraud cases and the percent of cases closed. Since fiscal 2015, the number of referrals opened for investigation has decreased at the same time that the percentage of referrals investigated within 180 days has increased. The decrease in fraud cases investigated is in part due to vacancies within the fraud division and in part due to more cases being referred to other law enforcement agencies.

**Exhibit 1**  
**Fraud Division**  
**Fiscal 2013-2017**

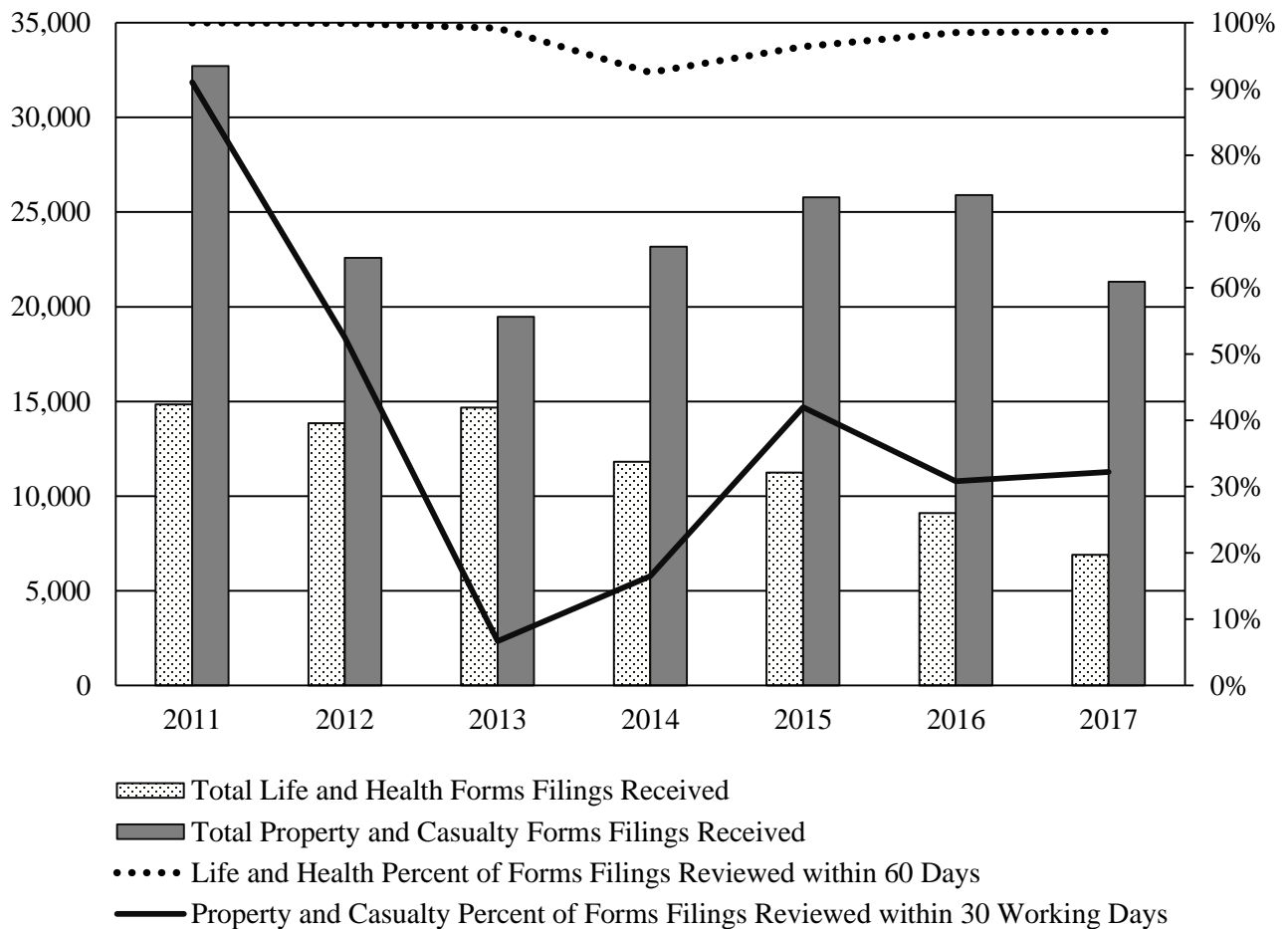


Source: Maryland Insurance Administration

## 2. Form Filings

MIA conducts a review of every insurance policy and contract to ensure that all of the legal requirements for the policy and/or contract have been met. MIA also reviews and approves rates for most Life and Health and Property and Casualty insurance products. **Exhibit 2** outlines the number of form filings for both Life and Health, and Property and Casualty insurance. The number of form filings received for both insurance classifications have decreased. The percentage of Life and Health forms processed within 60 days remains near 100%, while Property and Casualty forms reviewed within 30 days has been below 40% in the past two fiscal years, in part due to a backlog that has recently been resolved. It is not unusual for the number of forms filed to fluctuate annually as it is representative of the changes made to the insurance policies offered to customers. The decisions insurers make about what products to offer or change is based on a wide variety of market and legislative factors.

**Exhibit 2**  
**Form Filings Processed**  
**Fiscal 2011-2017**



Source: Maryland Insurance Administration

## Fiscal 2018 Actions

### Across-the-board Employee and Retiree Health Insurance Reduction

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect two additional payroll health insurance deduction holidays due to a surplus in the health insurance account. This agency's share of this reduction is \$359,204 in special funds, and \$1,398 in federal funds.

**Proposed Budget**

As shown in **Exhibit 3**, there is a \$552,000 increase in the adjusted fiscal 2019 budget over the adjusted fiscal 2018 working appropriation. Personnel costs increase \$508,000. The fiscal 2019 allowance includes funds for a 2% general salary increase for all State employees, effective January 1, 2019. These funds are budgeted in the Department of Budget and Management's statewide program and will be distributed to agencies during the fiscal year. This agency's share of the general salary increase is \$203,000. There is a \$134,000 turnover adjustment, which allows MIA to maintain current staffing levels. There is also a \$129,000 increase for 2.0 regular positions. The new positions are an analyst in the Life and Health Unit and a Market Conduct Examiner for the Compliance and Enforcement Unit.

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**Exhibit 3**  
**Proposed Budget**  
**Maryland Insurance Administration**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Total</u></b>
Fiscal 2017 Actual	\$30,328	\$502	\$30,830
Fiscal 2018 Working Appropriation	31,381	727	32,108
Fiscal 2019 Allowance	<u>31,934</u>	<u>726</u>	<u>32,660</u>
Fiscal 2018-2019 Amount Change	\$553	-\$1	\$552
Fiscal 2018-2019 Percent Change	1.8%	-0.1%	1.7%

**Where It Goes:****Personnel Expenses**

Health insurance primarily due to the impact of the fiscal 2018 health insurance deduction holiday .....	\$328
General salary increase .....	203
Turnover adjustments .....	134
New positions (2.0 regular positions) .....	129
Retirement .....	-20
Regular earnings .....	-105
Accrued leave payout .....	-161

**Other Changes**

Administrative hearings.....	307
Consulting services for premium rates .....	267
Contractual positions (0.5 full-time equivalents) .....	117
Temporary information technology position .....	113

## *D80Z01 – Maryland Insurance Administration*

### **Where It Goes:**

Office equipment .....	22
Statewide personnel system.....	-16
Communications .....	-20
Fixed charges .....	-32
Travel.....	-41
One-time costs for vehicle purchases .....	-48
Purchase of statute books .....	-49
Cost savings associated with grants for Office of People’s Counsel hearings .....	-50
Automated translation services.....	-67
Cost savings associated with tape retention policy.....	-92
Major information technology .....	-355
Miscellaneous .....	-12
<b>Total</b>	<b>\$552</b>

FTE: full-time equivalent

Note: Numbers may not sum to total due to rounding.

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### **Other Changes**

There is a \$267,000 increase for consulting services related to premium rates. The Insurance Commissioner must disapprove or modify a proposed premium rate filing if the proposed rates appear, based on a statistical analysis and reasonable assumptions, to be inadequate, unfairly discriminatory, or excessive in relation to benefits. In determining whether to disapprove or modify a rate filing, the Insurance Commissioner must consider past and prospective loss experience in and outside the State; underwriting practice and judgment; a reasonable margin for reserve needs; past and prospective expenses; and any other relevant factors in and outside the State. In the case of significant increases in proposed rates, MIA solicits the support of outside consultants to determine the appropriate increases necessary to maintain solvency. Given the volatility in the individual health premium rates in recent years, MIA anticipates the need for additional assistance in the upcoming year.

There is also a \$117,000 increase for contractual assistance due to lower than budgeted turnover, allowing for filling vacant positions and an additional 0.5 contractual full-time equivalent and a \$113,000 increase for a temporary information technology administrator to assist with network maintenance. Decreases include \$92,000 for savings related to the new tape retention policy and \$355,000 for the Enterprise Complaint Tracking System (ECTS). Through a miscommunication, funding that was intended for the ECTS was omitted from the budget. There is funding anticipated through a supplemental budget to correct this error.

## ***Operating Budget Recommended Actions***

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1. Concur with Governor's allowance.



## ***Updates***

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### **1. Long-term Care Insurance**

The *2017 Joint Chairmen's Report* required a report from MIA outlining the cost of potential inflation protection options for Long-Term Care Insurance (LTC), and the feasibility of a two-year or five-year moratorium on rate increases, and the effect a moratorium would have on the current market.

The *Code of Maryland Regulations* requires that an insurer offer policies with annual increases of at least 5% compound inflation. Many companies also offer inflation protection options of 2% to 3%. The current 5% compound inflation protection mandate accounts for a significant portion of claims paid by companies and is a significant factor contributing to rate increases as the annual LTC inflation rates are usually less than 5%. As such, large requests are frequently sought on policies that contain the 5% compound inflation protection benefit. In response to rate increases, MIA has encouraged LTC insurance providers to develop alternatives to direct rate increases, which in some cases have been beneficial. Some insurers have offered their customers the option to modify their rate protection plans to offset the costs of potential increases across the board, and these methods have been successful in preventing increases.

MIA asserts that while a moratorium on rate increases would provide temporary relief for insurance policyholders, it could propel rates to higher levels in the long term. There is also the potential that a moratorium could endanger the solvency of the insurers, which in turn could make the State Life and Health Insurance Guaranty Corporation (LHIGC) liable to pay for the policies that were unable to be covered by insurers up to a maximum of \$300,000 per policy. LHIGC generates its assets through assessments on specified insurance carriers. If LHIGC is held liable for the claims payments due to an LTC carrier's insolvency, it would affect all life and health insurance carriers through larger assessments even if they do not issue LTC policies. The threat of insolvency due to a moratorium could also cause current LTC insurers to pull out of the Maryland marketplace, which would eliminate the option of LTC insurance for potential consumers.

**Appendix 1**  
**Current and Prior Year Budgets**  
**Maryland Insurance Administration**  
**(\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2017</b>					
Legislative Appropriation	\$0	\$32,783	\$778	\$0	\$33,561
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	359	4	0	362
Reversions and Cancellations	0	-2,814	-279	0	-3,093
<b>Actual Expenditures</b>	<b>\$0</b>	<b>\$30,328</b>	<b>\$502</b>	<b>\$0</b>	<b>\$30,830</b>
<b>Fiscal 2018</b>					
Legislative Appropriation	\$0	\$31,740	\$728	\$0	\$32,469
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
<b>Working Appropriation</b>	<b>\$0</b>	<b>\$31,740</b>	<b>\$728</b>	<b>\$0</b>	<b>\$32,469</b>

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. Numbers may not sum to total due to rounding.

## **Fiscal 2017**

The fiscal 2017 legislative appropriation for the Maryland Insurance Administration decreased by \$2,731,000. Budget amendments added \$359,000 in special funds and \$4,000 in federal funds for centrally budgeted salary increments.

There was \$2.8 million in canceled special funds and \$279,000 in canceled federal funds resulting from vacant positions and fluctuations in the number of producers and carriers that maintain their licenses.

## **Fiscal 2018**

To date, the fiscal 2018 legislative appropriation has not changed.

**Appendix 2**  
**Major Information Technology Projects**  
**Maryland Insurance Administration**  
**Enterprise Complaint Tracking System**

<b>Project Status</b>	Implementation.	<b>New/Ongoing Project:</b>	Ongoing.
<b>Project Description:</b>	The Maryland Insurance Administration (MIA) has identified the need to replace the current Enterprise Complaint Tracking System (ECTS) with a browser-based document management technology that automates workflow by routing electronic documents and notifications across the organization and enables online data entry, form creation, standard reports, ad hoc queries, and data exchange with internal and external systems.		
<b>Project Business Goals:</b>	Replacing the current ECTS with upgraded technology will provide MIA with the ability to improve complaint resolution efficiency percentages beyond current targets.		
<b>Estimated Total Project Cost:</b>	\$3,614,500	<b>Estimated Planning Project Cost:</b>	n/a
<b>Project Start Date:</b>	October 2014	<b>Projected Completion Date:</b>	2018
<b>Schedule Status:</b>	A consulting and technical services Task Order Request for Proposal to procure the necessary hardware and software and implement the new ECTS was issued in January 2015. After evaluating all proposals submitted, the ECTS contract was awarded to International Software Systems, Inc. (ISSI) in June 2015. ECTS' Design and Development phases continued throughout fiscal 2017. User acceptance testing began in March 2017 and continued through August 2017. At that time, MIA defined several functional enhancements that were needed to improve the system usability and workflow. These enhancements were incorporated into a work order in September 2017, and ISSI began a redesign and code update for these changes. The project schedule was updated and, the project is expected to launch in 2018 with continued maintenance in fiscal 2019.		
<b>Cost Status:</b>	The project is currently on budget.		
<b>Scope Status:</b>	The new ECTS will rely on SharePoint for document management capabilities. The applications User Interface, data collection, case tracking, workflow automation, and reporting features are written in .Net using a structured query language server database. The ECTS system will be installed on VMware hosts in the MIA data center with a load balancer and firewall on the front end. A storage area network will be used to store encrypted data and documents for the agency.		
<b>Project Management Oversight Status:</b>	There continues to be a project manager for the project.		
<b>Identifiable Risks:</b>	n/a.		
<b>Additional Comments:</b>	Due to an oversight, fiscal 2019 funding was omitted from the fiscal 2019 allowance. A supplemental budget is anticipated, and the funding is shown below consistent with Appendix N of the fiscal 2019 budget highlights.		

<b>Fiscal Year Funding (\$ in Thousands)</b>	<b>Prior Years</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>Balance to Complete</b>	<b>Total</b>
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	3,259.0	355.0	0.0	0.0	0.0	0.0	0.0	3,614.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Funding</b>	<b>\$3,259.0</b>	<b>\$355.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$3,614.0</b>

**Appendix 3**  
**Object/Fund Difference Report**  
**Maryland Insurance Administration**

<u>Object/Fund</u>	<u>FY 17 Actual</u>	<u>FY 18 Working Appropriation</u>	<u>FY 19 Allowance</u>	<u>FY 18 - FY 19 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	257.00	257.00	259.00	2.00	0.8%
02 Contractual	13.85	17.10	17.60	0.50	2.9%
<b>Total Positions</b>	<b>270.85</b>	<b>274.10</b>	<b>276.60</b>	<b>2.50</b>	<b>0.9%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 23,759,196	\$ 24,675,148	\$ 24,619,536	-\$ 55,612	-0.2%
02 Technical and Spec. Fees	1,017,413	945,538	1,062,707	117,169	12.4%
03 Communication	228,050	318,532	298,319	-20,213	-6.3%
04 Travel	278,128	341,471	300,101	-41,370	-12.1%
07 Motor Vehicles	202,328	237,650	190,036	-47,614	-20.0%
08 Contractual Services	2,549,799	2,875,702	3,113,367	237,665	8.3%
09 Supplies and Materials	250,906	299,966	251,303	-48,663	-16.2%
10 Equipment – Replacement	102,677	310,000	218,096	-91,904	-29.6%
11 Equipment – Additional	7,396	0	21,202	21,202	N/A
12 Grants, Subsidies, and Contributions	563,026	634,644	584,699	-49,945	-7.9%
13 Fixed Charges	1,871,091	1,829,941	1,798,025	-31,916	-1.7%
<b>Total Objects</b>	<b>\$ 30,830,010</b>	<b>\$ 32,468,592</b>	<b>\$ 32,457,391</b>	<b>-\$ 11,201</b>	<b>0%</b>
<b>Funds</b>					
03 Special Fund	\$ 30,328,059	\$ 31,740,397	\$ 31,732,270	-\$ 8,127	0%
05 Federal Fund	501,951	728,195	725,121	-3,074	-0.4%
<b>Total Funds</b>	<b>\$ 30,830,010</b>	<b>\$ 32,468,592</b>	<b>\$ 32,457,391</b>	<b>-\$ 11,201</b>	<b>0%</b>

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.

**Appendix 4  
Fiscal Summary  
Maryland Insurance Administration**

<b><u>Program/Unit</u></b>	<b><u>FY 17 Actual</u></b>	<b><u>FY 18 Wrk Approp</u></b>	<b><u>FY 19 Allowance</u></b>	<b><u>Change</u></b>	<b><u>FY 18 - FY 19 % Change</u></b>
01 Administration and Operations	\$ 30,771,619	\$ 32,113,592	\$ 32,457,391	\$ 343,799	1.1%
02 Major Information Technology Development	58,391	355,000	0	-355,000	-100.0%
<b>Total Expenditures</b>	<b>\$ 30,830,010</b>	<b>\$ 32,468,592</b>	<b>\$ 32,457,391</b>	<b>-\$ 11,201</b>	<b>0%</b>
Special Fund	\$ 30,328,059	\$ 31,740,397	\$ 31,732,270	-\$ 8,127	0%
Federal Fund	501,951	728,195	725,121	-3,074	-0.4%
<b>Total Appropriations</b>	<b>\$ 30,830,010</b>	<b>\$ 32,468,592</b>	<b>\$ 32,457,391</b>	<b>-\$ 11,201</b>	<b>0%</b>

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.